WALKER'S SHARES IN DISTRIBUTION.

THE reasoning upon which the prevailing theories of distribution rest involves a freedom in the manipulation of the principles of logic that would startle a Whately or a Port Royalist. In dividing a genus into its species the fundamental requirement that " the division must be founded upon one principle or basis", is allowed varying weight, according to convenience. When an indefinitely small quantity appears in the way it is promptly discarded, and the subsequent argument proceeds as though this small quantity were not only "practically", but actually non-existent.

1. The theory of distribution, as set forth by President Francis A. Walker,[1] recognizes four shares into which product is divided, viz., rent, interest, profits, and wages. The nature of these shares is described as follows:

" Rent is the term applied to the remuneration received by the landowning class for the use of the native and indestructible powers of the soil, or, as it might be expressed, for the use of natural agents." (p. 193.)

Interest is "the share of the capitalist in the product of industry," "the compensation paid for the use of capital." (p. 218.)

Profits comprise " the entrepreneur's share of the product of industry." (p. 234.)

The fourth share, wages, "is the remuneration of labor." (p. 245.)

The basis of differentiation here appears to be remuneration for the services of factors that enter into production. Each factor performs a distinct and valuable service, and because of this a share is assigned to the owner or controller of that factor. It might seem that the classification is made upon the basis of ownership or control of the factors, but a moment's reflection

[1] *Political Economy, Advanced Course.*

will show that the classification of owners into land owners, capitalists, employers, and laborers, itself assumes the pre-existing differentiation of shares. Then, too, while the appearance of the shares as distinct portions may wait upon the appearance of the classes as distinct from each other, it will scarcely be held that any share ceases to exist because the ownership of two or more is concentrated in one person. If profits and wages exist at all as distinct shares, they continue their existence, even though laborer and entrepreneur, in a given case, be one and the same person. The factors requisite for production together form the basis for determining what the shares of distribution are, granted the existence of land, capital, enterprise and labor as distinct and necessary factors, rendering valuable service to production, and the shares of distribution are rent, interest, profits and wages.

In President Walker's description of the shares this principle of differentiation is consistently followed so far as wages and interest are concerned. Wages are the remuneration of the laborer for his services, and interest is the remuneration of capitalists for the use of their capital. The inference is plain, that in each of these cases there is a valuable service performed, because of which there is a share in the product. The same is true of rent and of profits, so long as we confine ourselves to the description of profits as the remuneration of employers for their services, and to the description of rent as the remuneration received by the land-owning class for the use of land.

But when the laws of rent and of profits are to be determined, new definitions become necessary. "Rent arises out of differences existing in the productiveness of different soils under cultivation at the same time for supplying the same market." (p. 197.) The existence of profits is "due to exceptional abilities or to exceptional opportunities." "The qualifications for the conduct of business are not equal throughout all of a sufficiently numerous class." The lowest class of employers receive only bare subsistence. They constitute the "no-profits class of employers" (p. 234). Rent and profits are no longer due to the fact that land and employers perform valuable services

in production, but to the fact that different portions of land and different employers perform *different amounts of valuable services*, respectively.

Here, then, is the introduction of a new principle of differentiation. Product is divided into four shares, two of which are based upon the *performance of valuable services* in production, while the other two are based upon *differences in the amounts* of valuable services performed by different portions of the respective factors.

2. How are the amounts that go as rent, interest, profits and wages determined ?

It is important to note that the following laws of distribution assume the existence of free and active competition to the extent that "each for himself fully understands" his "own pecuniary interests and will unflinchingly seek and unfailingly find" his "best market".

"The amount of rent is determined by" the "differences existing in the productiveness of different soils under cultivation at the same time for supplying the same market." (p. 197.) "The whole theory of rent rests on the assumption that there is a body of no-rent lands. These serve as the base from which to measure upwards the successive degrees of productiveness of the lands bearing rent." (pp. 222, 223.)

The rate of interest is determined by "the demand for, and the supply of loanable capital." (p. 220.) There is no "no-interest" capital (except through misadventure); "in theory, all capital bears an interest, and all portions of capital bear equal interest." (p. 223.)

Profits are "governed by the same law as rent" (p. 236), hence the law of profits may be stated in terms of the law of rent: profits are determined by the differences existing in the productiveness of different abilities or opportunities of employers engaged at the same time in supplying the same market.

"Wages *equal* the product of industry *minus* the three parts already determined in their nature and amount" (p. 248).

That is to say, rent, interest, and profits are determined by certain fixed laws, and the laborer receives what is left. Without further explanation, it would appear that the laborer is at the mercy of those who receive the first three shares. Not so, however. The other shares are fixed according to such laws that they can in no way interfere with the laborer's share. "The laboring class receive all they help to produce subject to deducdeduction on the three several accounts mentioned." "Unless by their own neglect of their own interests, or through inequitable laws, or social customs having the force of law, no other party can enter to make any claim on the product of industry, nor can any one of the three parties already indicated carry away anything in excess of its normal share, as herein before defined" (p. 251).

Not yet, however, have we arrived at a law of wages that is much more than a truism. The laborer gets all that he helps to produce except what goes to rent, interest, and profits, and these shares are determined according to laws that prevent their interference with the laborer's share. But the laborer helps to produce the entire product. What is this share which is independent of the others? We look for further light upon the law of wages and are not disappointed. If only competition be full and free, the amount of wages is the increased value given to the product by labor. "*So far as*, by their energy in work, their economy in the use of materials, or their care in dealing with the finished product, *the value of that product is increased, that increase goes to them by purely natural laws*, provided only competition be full and free." (p. 251.) The law of wages, then, may be thus stated: wages equal the contribution of labor to the production of wealth.

A comparison of these laws shows that the amounts of the several shares are determined according to three different standards. Two of the shares, rent and profits, are determined by the difference in the productiveness between such of the corresponding factors, land and enterprise, as do and such as do not yield rent and profits. Another share, interest, depends upon

the supply of and the demand for the corresponding factor, capital. The fourth share, wages, is equal to the amount that the corresponding factor, labor, contributes to the value of the product. The logical result of this variety of standards may be seen by starting with the law of wages and following out the consequences of its acceptance in the determination of the other shares. For the present, the assumption that full and free competition is the normal order of the economic world may be accepted.

Wages equal the amount by which the value of the product is increased by labor, *i. e.*, the contribution of labor to the production of wealth. But how is the amount contributed by labor to be measured? In the absence of any criterion by which to estimate directly the increase in value that is due to labor, the argument proceeds by the method of residues. If all the other shares are determined by such laws that they cannot infringe upon the value contributed by labor, then the laborer's share must equal that amount. Turning to interest, we find that it is determined by the supply of and the demand for loanable capital. Surely this is not the same as saying that interest is paid wholly out of the contribution of capital to production, nor is it equivalent to saying that all the contribution of capital goes to interest. And yet, without this interpretation of the law of interest, what is there to prevent a portion of the value added to product by capital-force from going to wages, or a portion of the value contributed by labor from going to interest? The criterion for wages is usefulness, that for interest is market value. The two are by no means identical or equivalent.

But assuming the above law of wages to be correct, let us proceed to consider the other shares. Profits are determined by the same law as rent. They are estimated upwards from the base set by the "no-profits" class. The "no-profits" class receive only bare subsistence, which is "obtained through so much of hard work, of anxiety, and often of humiliation," that we regard it "as that minimum which, in economics (?), we can treat as *nil*". But what relation do profits sustain to the

contribution made by employers to the production of wealth? In answer to this we find the statement that profits "consist wholly of wealth created by the iudividual employers themselves". The complete statement by President Walker is: "In other words these profits consist wholly of wealth created by the individual employers themselves, over and above the wealth which would have been produced, in similar industrial enterprises, by the same labor-force and capital-force under the control of employers of less efficiency." Then the entire amount of profits equals the amount of wealth produced by employers over and above that created by those of least efficiency. But the least efficient employers constitute the "no-profits class". Their profits being *nil*, it follows that gross profits "consist wholly of wealth created by individual employers themselves". (Cf. p. 250.) But do employers get *all* that they create? It is stated that their share consists wholly of what they create, but we are left in doubt as to whether their share consists of all that they create. Two facts are, however, assured: (1) the employers do not share in the contributions of land, capital, or labor to wealth; and (2) if that which the employers create goes to swell any share other than profits, that share is not wages, it must be either interest or rent or both.

The rate of interest, in President Walker's system, is determined by the supply of and demand for loanable capital. Nothing is said concerning the relation between the amount of interest and the amount of service rendered by capital. Since interest is the return to capitalists for the use of capital, it may be inferred that interest exists because capital performs some service in production. Further than this, however, the theory affords no definite grounds for affirming a relation between interest and the contribution of capital. The conclusions, then, from the study of the theory of interest are these: (1) since the entire contribution of labor forms wages (*vide supra*), interest must be derived from the contributions of one or more of the other factors, enterprise, capital, or land; (2) that which capital-force creates can-

not go to wages or to profits (*vide supra*), hence it must go either to interest or to rent or to both.

The last of the four shares remaining to be considered is rent. Rent is the remuneration to the land-owners for the use of the land. The Ricardian theory of rent does not find it necessary to say anything of the relation between the amount of rent and the *total* contribution by land to production. Rent is the contribution by land above the "no-rent" stage.[1]

If the conclusions thus far drawn respecting wages, profits, aud interest be correct, we may be sure that no part of the contribution by land goes to wages or profits. Then either the contribution by land in the "no-rent" stage must go to interest or *this land makes no contribution to production.* It ought to require no argument to show that the latter alternative cannot be accepted. Nor will it suffice either logically or practically, to say that the contribution by this land is "practically nothing". Its contribution is not only important, but it is absolutely essential. The first alternative, *i. e.*, that the contribution of "no-rent" land goes to interest, will be left for those who accept the "no-rent" theory to prove and to harmonize with the rest of their theory.

But it must be emphasized that the necessity of determining what the income is from "no-rent" land cannot be evaded. Until that is determined, it is impossible to tell whether wages is the residual or the primordial share. Furthermore, until this income from "no-rent" land is classified, it cannot be proved that the pay of the laborer comes from his contribution to production. For, if rent equals the amount that land will produce minus the amount produced on "no-rent" land, there is some product due to the contribution of land that is not rent wherever land assists production. And that this amount is by no means insignificant is evident from the important part that land in the "no-rent" stage takes in production.

[1] In justice to President Walker it should be stated that "no-rent" land is land "no portion" of which "would bring so large a rent that it might not, for purposes of economic reasoning, be treated as *nil*" (p. 195). But what is to be said of the contribution by "no-rent" land ?

What is the income received by the cultivator of this so-called "no-rent" land? Take the case in which the cultivator of the soil is not only laborer, but also entrepreneur and owner of both land and capital. If no portion of his income is rent, it must be assigned either to one of the three shares, profits, interest or wages, or to some combination of these shares—perhaps to all three. The probability that income from "no-rent" land will be assigned either to profits or to interest alone is so slight that this disposition of the income may be passed by. This income will doubtless be called either wages, or some combination of wages, interest, and profits.

Why should it be called wages? Its assignment to this share is due to the fact that if competition be "full and free,"—barring pride of ownership,—no one will assume the responsibility of cultivating land until he can make more by so doing than by remaining a mere laborer. But this assumes the existence of a rate of wages that serves as a minimum standard of income below which land will not be cultivated. Rent is no longer determined before and independently of the other shares. The law of rent must be re-stated; rent arises out of differences between the productiveness of the soil and the rate of wages.

But suppose the law of rent is so changed, what has been proved? Only, that wages determine the standard of income from "no-rent" land, not that such income is wages. If this income is wages, a new definition of wages is necessary. Wages can no longer be the remuneration of labor for its services only, for here will be a case in which wages are the remuneration of labor (?) for the services of labor, capital, enterprise and land.

It remains to inquire whether the income from "no-rent" land constitutes wages, interest, and profits, or any combination thereof. There is not much to be said upon this point, for whatever argument can be adduced to prove that this income includes wages, interest, and profits, will apply with equal force to sustain a theory that includes rent also. There is no more reason for calling the income of the cultivator of the land wages because the farmer labors, or interest, because he owns the capital, or

profits, because he is the entrepreneur, than for calling it rent because he is the land-owner. Nor can a satisfactory reason be assigned for designating this income by any combination of these that shall exclude rent. All that can or need be affirmed of so-called "no-rent" land is that it is land cultivated under such conditions that unless the cultivator can include in his income the value contributed by land, he cannot continue the business without loss.

The Ricardian law of rent is a truism. As stated above, the theory appears to define rent as the remuneration of the land-owner for the use of land, but this definition is discarded for a new one in which rent is described as due to the difference in the productivity of different portions of land. Given land whose productivity is sufficient only to call it into use, and the increased production resulting from the cultivation of other land, except in so far as this increase is due to something else, as superior labor, capital, or enterprise, it is due to the superior productivity of the soil, and by definition this is rent. The law of rent follows. Rent is equal to the difference in productiveness of different soils. Why? Because, by hypothesis, it cannot be anything else.

The theory of distribution, as thus set forth, involves the determination of the amount of some or all of the several shares according to the contribution of the corresponding factor or factors to the total product. This contribution cannot be determined. Let us suppose that there are two horses, A and B, one of which, A, can draw x pounds, the other, B, y pounds, and that together they can draw $x+y+z$ pounds. If x equals $\frac{5}{4}$ y, *i. e.*, if A alone can draw one-fourth more than B alone, how much of z does each draw? Or, to vary the question, if a horse that can draw x pounds loses a leg, after which he can only hobble around to secure a scanty living and cannot draw anything, how much of the x pounds did the lost leg draw? It is impossible to answer either of these questions. The assumption that increase of power is in proportion to original capacity, or that original capacity was in proportion to decrease of power,

is pure guess-work. When a combination of certain factors is absolutely necessary to a given end, it is impossible to determine the amount contributed by each factor to that end.

3. As has been stated, the theory of distribution under discussion is based upon full and free competition. Moreover, this competition is considered to be the only normal manifestation of industrial activity. "Rightly viewed, perfect competition would be seen to be the order of the economic universe, as truly as gravity is the order of the physical universe." (p. 263.) But what is this competition? As defined by President Walker, it is "the operation of individual self-interest among buyers and sellers". It implies "that each man acts for himself, solely, by himself, solely, in order to get the most he can from others, and to give the least he must, himself." The significance of this may be better grasped by noting that which retards the working of competition. Competition is opposed in principle alike to combination, to custom, and to the influence of the sentiments of charity, gratitude, or patriotism in exchange. (*Briefer Course*, p. 228.) Omitting a consideration of sentiments of charity, gratitude, or patriotism, because they involve ethical conceptions, we may well ask, "Do not combination and custom often conduce to individual self-interest?" The description of competition given by Professor Walker leads to the inference that all normal "operation of individual self-interest" involves the action of each man "by himself, solely". Combination is opposed to competition, but combination is an "operation of individual self-interest". Moreover, it is difficult to see what definition of "normal" can be framed that shall exclude combination, unless the definition at once begs the question by describing normal economic activity as the resultant of self-interest in other ways than through combination.

The very existence of division of labor implies combination. If one hundred individual shoemakers, each working "by himself, solely," unite, so that by dividing the several operations of shoemaking they may increase their individual wealth, this is combination just as truly as where one hundred employers of

labor engaged in the shoemaking industry combine to keep up prices. In the one case they seek to promote self-interest by combining to decrease the cost of production; in the other case, they seek the same end by keeping up price. It does not alter the fact of combination to say that the former is legitimate and the latter illegitimate. The former is an instance of combination — nay, more, the former involves the latter. Power to control production is power to control price so far as price depends upon supply. Every concentration of capital that makes possible increased division of labor is attended by the fact of combination.

Nor is this all. There is more involved in the expression "rightly viewed" than appears at first. Not all competition is normal, *e. g.*, the so-called "cut-throat" competition which occasionally appears is certainly not the normal order of the economic world. "Rightly viewed" evidently means that normal competition is the normal order, *i. e.*, competition that is restrained by some other normal force is normal. It is the old familiar and vicious circle.

What is the science of economics? Is its purpose the construction of a theory or the interpretation of industrial society as it actually exists? At present a large part of the theory is based upon hypotheses that involve the assumption of all that it is desired to prove. When, perchance, some one more innocent than the rest seeks to apply the laboriously deduced principles to actual life and finds no correspondence, his attention is directed to the hypotheses and he there learns that the phenomena of actual life are in the main "exceptions to the rule".

FREDERICK CHARLES HICKS.

UNIVERSITY OF MISSOURI.